

Hollywood at the Digital Crossroad: New Challenges, New Opportunities

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ABSTRACT

The history of Hollywood runs in tandem with the history of technological development. However, the changes over the last ten years have been both more fast-paced and more far-reaching than anything that came before. The digital revolution and globalization have transformed the film and TV industry in ways which could never have been foreseen. The big Hollywood studios have been forced to respond to the uncertainty – and potential for profit – prompted by the popularity of the internet and the success of new digital platforms, especially among young people.

Thus, Hollywood would appear to be standing at a new digital (and global) crossroads, charted by two basic movements: on one hand, the emergence of a new market for the commercialization of audiovisual products (internet, IPTV, digital reproduction devices, mobile telephones), referred to as the *long tail market*; and, on the other, the emergence of new type of consumer, known collectively as the *iPod* or *net-generation*. The two, linked questions set out below sum up the challenges facing the major studios in Hollywood: What new consumer habits define this emerging viewer/audience profile? What business model will define the network of relations on the internet with regard to the commercial practices of the film and TV series industry; or, in other words, what are the rules governing this new market? These two questions are closely bound up together; the response to one conditions any response to the other.

This paper is an attempt to trace the framework of present and future challenges facing the entertainment industry. First, the defining features of the consumer profile shaped by the development of new technologies are examined. Second, the latest operational strategies of the entertainment industry, which also shed light on the alliance between Hollywood and Silicon Valley, are discussed. Then, the business models adopted by major American studios in relation to the downloading of films and TV programs are described. Finally, the most significant elements of the new digital economy are addressed, giving rise to a more structured conclusion in the form of a SWOT analysis of the new window of commercial opportunity opened on the internet for entertainment products.

Key words: Hollywood, Internet, Movie Download, Business Model, Long Tail Market, Digital Economy

The history of Hollywood runs in tandem with the history of technological development. The inclusion of sound, followed by that of color, along with the need to adapt to new audiovisual media (television and video), are milestones in the history of the largest entertainment factory in the world. Each of these forms of technological development in turn marked a growing pain or turning point at the time of its invention, by which the Hollywood industry was ultimately strengthened.

However, the changes over the last ten years have been both more fast-paced and more far-reaching than anything that came before. The digital revolution and globalization have transformed the film and TV industry in ways which could never have been foreseen (Hoskins, McFadyen, & Finn, 1997; Miller et al., 2005; Vogel, 2004). The big Hollywood studios have been forced to respond to the uncertainty and potential for profit, prompted by the popularity of the Internet and the success of new digital platforms, especially among young people.

A study carried out recently by Adams Media Research estimates the cost of film and TV series downloads at 111 million dollars, a figure which was expected to rise to 472 million dollars in 2007, and predicted to reach more than 1,000 million dollars in 2008. The annual growth rate thereafter is expected to be in the region of 1,000 million dollars, until at least 2011 (Reuters, 2007).

Thus, Hollywood would appear to be standing at a new digital (and global) crossroads, charted by two basic movements: on one hand, the emergence of a new market for the commercialization of audiovisual products (Internet, IPTV, digital reproduction devices, mobile telephones), referred to as the *long tail market*; and, on the other, the emergence of new type of consumer, known collectively as the *iPod* or *net-generation*. The two, linked questions set out below sum up the challenges facing the major studios in Hollywood: What new consumer habits define this emerging viewer/audience profile? What business model will define the network of relations on the Internet with regard to the commercial practices of the film and TV series industry; or, in other words, what are the rules governing this new market? These two questions are closely bound up together; the response to one conditions any response to the other.

Insofar as a phenomenon still in a state of flux may be amenable to enabling analysis, the aim of this paper is to respond to these questions. In fact, most business strategies and projections in this regard have been tabled only in the last two years, and new moves on the checkerboard of a game whose rules change from one moment to the next are reported in the industry press on a daily basis. As a result, any conclusions that might be drawn from a discussion of the current situation must be regarded as provisional. This paper is an attempt to trace the framework of present and future challenges facing the entertainment industry. First, I will examine the defining features of the emerging consumer profile shaped by the

development of new technologies. Secondly, I will address the most significant elements of the new digital economy, epitomized by the 'long tail market' model. Thirdly, the latest operational strategies of the entertainment industry, which also shed light on the alliance between Hollywood and Silicon Valley, will be described. Then, I will discuss on the business models adopted by major American studios in relation to the downloading of films and TV programs. Finally, I will draw some concluding remarks to frame the changing physiognomy of the entertainment industry and the search for the right business strategies.

1. NEW MEDIA, NEW CONSUMERS: THE "IPOD-GENERATION"

I am convinced that by the year 2005 Americans will spend more hours on the Internet (o whatever is called) than watching network television
(Negroponte, 1995: 98).

Although this prediction made by Nicholas Negroponte in the mid-1990s has not yet been fulfilled to the letter, the truth of what he argued is likely to be confirmed in the near future. While the average annual viewing-time for open-access television consumption in the United States fell from 719 hours in 2002 to 679 hours in 2005, and the figures for cable and satellite TV rose from 800 to 869 hours, Internet usage increased from 147 to 183 hours and the figures for interactive TV from 4 to 15 hours; this latter rise shows the highest rate of growth (34%) (ScreenDigest, 2006a) - a rate of increase that takes on particular significance in light of the fact that TV and computer functions may soon be performed by a single device.

Moreover, sales figures for electronic goods in the United States rose from 113 billion to almost 130 million dollars between 2001 and 2005, a growth rate of 11%. Mobile telephones, home computers and videogames comprise 62.8% of total sales (ScreenDigest, 2006c). While adult users continue to spend more time watching television (28 and a half hours per week) than surfing the Internet (6 hours per week), the difference in the ratio of usage is gradually decreasing among young people. In any case, the tendency is clear: more and more television viewers are turning to the Internet to watch videos, films and TV episodes. According to a survey conducted in 2007, 65% of the US adults interviewed said they have watched a video on YouTube, compared to the 42% the previous year (Sibonney & Reaney, 2008)¹.

¹ This survey was conducted by Harris Interactive, on a basis of 2,455 interviews during the same period of the year (2006 and 2007).

The success of the iPod in the United States neatly exemplifies the enormous commercial potential of the emerging young viewer/audience that has grown up in a world of new technologies. Apple has sold more than 140 million iPods since 2001, sales which amount to more than 30% of the company's annual income and to 70-75% of all portable audio players and music downloads sold, not to mention the 4 million iPhones. As a result, following the market-launch of the iTunes Music Store, the Apple brand has commercialized more than 4 billion songs (the second-largest music retailer behind Wal-Mart), more than 3 million feature films, and approximately 100 million TV programs and series since image downloads were made available as part of the package in October 2005 (McBride, 2006a; Fritz, 2007c; *ScreenDigest*, 2007; Grover, 2008a; Hesseldahl, 2008a, 2008b). The Apple-iTunes-iPod 'ecosystem' has been so successful, that, as some industry experts point out, "for most consumers, if it doesn't exist for the iPod, it doesn't exist" (Van Buskirk, 2008). This iPod generation epitomizes this new generation of users whose audiovisual experience is based on this media platform and whose profile to a large extent mirrors that of the cinema-going public and those who play videogames. For that very reason, other competitors like Microsoft launched their own version of the iPod – Zune – at the end of 2006 in an attempt to break Apple's monopoly on the market, which currently stands at 75% of digital music and video reproduction devices in the United States (Chmielewski, 2006b; Glover, 2006b).

Marketing experts are convinced that this generation of new technology users has now reached a critical mass in numerical terms, and their consumer behavior is markedly different to that which went before. The following aspects of new consumer behavior might be highlighted: (a) a more participative and active attitude with respect to audiovisual and entertainment contents (and a consequent demand for contents that satisfy this attitude), including the production of material to be uploaded to the Internet; (b) multi-tasking skills; (c) new forms of socializing in virtual communities; (d) a preference for versatility and portability over quality in consumer use; and (e) new consumer behavior as a catalyst for the creation of new market niches (low demand, personalized and individually tailored consumption).

This matrix of aspects has been distilled into the well-known slogan taken as the motto for the new media scene: "What you want, when you want, where you want and how you want". Or, as Michael Gubbins æditor of *Screen Daily*æ calls it remembering an iconic advertisement of the 1970s, this is the ultimate expression of 'the Martini culture' in our "ubiquitous leisure society". In this regard, he explains:

It is the sexier big sister of the more prosaic term ICE (information, communication and entertainment) coined in India during the dotcom boom to denote a marriage of information technology and entertainment.

And to an extent, both dreams have come true. It is barely impossible to walk 100m in a city in any developed country without seeing the distinctive white earphones of an iPod. Mobile gaming is expanding quickly and telephones have lost their dowdy role as a means of speaking to people, to become portable electronic leisure centers
(Gubbins, 2008).

Commenting on some of these phenomena, David Denby, the renowned film critic at *The New Yorker*, referred to the new media generation as “platform agnostics” that is, a generation of viewers used to watching films on any type of screen, large or small, who have little interest in the formal quality of the image. In further remarks on the profile of the new viewer/audience, he went on to say:

[These] teenagers are making their own movies and showing them on YouTube and MySpace. They're multitasking for fun, with computer games, instant messaging, and television. They may be unwilling to sit in a darkened theatre for two hours, submitting to someone else's control
(Denby, 2006).

This observation is backed up by the results from a survey carried out among young Americans in summer 2006: 62% of adolescents (12?17 years old) responded that they were willing to watch a film on their computer, mobile telephone or iPod, and there was a 52% positive response to a similar question regarding TV programs. The corresponding figures for respondents from a higher age group (18?24 years old) are lower: 57% in the case of films, and 49% for TV programs. In both age-groups, however, the majority preference is for the computer, followed by the iPod, with the mobile telephone in third place (Gold, 2006: A1)².

The unconventional understanding of the free circulation of audiovisual material that has become common currency should also be mentioned at this point: that is, the relative indifference to legal rights and copyright when sharing entertainment and other audiovisual contents (the growth of piracy). The significant percentage of young Americans - a figure which might be applied by extension to the rest of the world - untroubled by the idea of

² This survey was carried out by the *Los Angeles Times* and Bloomberg from 23 June to 3 July 2006. 1,650 questionnaires comprised the final valid sample (839 adolescents from 12 to 17 years old, and 811 young people between 18 and 24 years old).

'pirating' music or films is notable (Duhigg, 2006)³. The limited acquisitive power of this demographic sector may well be a factor in the development of this consumer mentality; it conditions the understanding of what is cheap and expensive, what young users might regard as a reasonable investment (or what suppliers may refer to as a competitive price). The ways in which price and the range of material on offer on the web have become decisive in the development and implementation of the most appropriate business model are discussed below (Anderson, 2004: 77).

2. THE NEW DIGITAL ECONOMY: RELEVANCE OF "LONG TAIL" MARKETS

Discussion thus far has centered on the emergence of a new viewer/audience profile, the interest shown by the entertainment industry in the United States in the market potential of new technologies, and the trial-and-error implementation of different business models. The following question inevitably arises in this context: What rules govern business in this new window of commercial opportunity?

Executives at the major Hollywood studios acknowledge that the existing commercial models are in terminal decline. Box-office takings in 2005 amounted to only 14.2% of total income. The other 85.8% was generated through the sale of audiovisual products designed for use at home and/or in an individualized way. In the last two decades, the highest percentage of income has been raised by DVD sales and pay-per-view television, but the digital revolution is also likely to radically transform the market in this regard. The physical copy of the audiovisual product will disappear, and the existing distribution channels along with it. Nevertheless, the industry response to this prospect ought to be measured.

"Once upon a time (...) the movie business was about making movies", assesses Edward J. Epstein. "Nowadays, it is about creating intellectual property that can be licensed in a raft of different markets". And he adds: "The [Hollywood] studios stand to gain even more from huge audience willing to pay to download movies from their libraries". Therefore, he continues, "[t]he real issue for Hollywood studios is how they can dig into this potential gold mine without undermining their existing revenue streams" (Epstein, 2005).

Chris Anderson, editor of *Wired*, christened this recently discovered "gold mine" with the

³ A survey carried out by the *Los Angeles Times* and Bloomberg in June 2006 disclosed the following results: 69% of the adolescents (12–17 years old) interviewed felt that it was legal to copy a music CD supplied by a friend, but only if the CD was an original that had been paid for. However, 21% said that it was legal to copy a CD that was itself a copy, not a bought original. With regard to films, 58% responded that it was legal to copy a DVD or VHS from a friend's original, and 19% to copy from a copy.

name *the long tail*, a term that has since become common currency (Anderson, 2004, 2006). His argument, which soon drew on empirical evidence from an analysis of several companies in the sector, runs as follows: commercialization on the Internet is not a marginal market; rather, it is an emerging market whose value is increasing all the time. This argument for Internet commercialization defers to three reasons: (a) the Internet brings together a dispersed and fragmented audience which, as a whole, constitutes a significant market; (b) distribution costs are eliminated and product consumption becomes more personalized and attuned to the demands of the *net-generation*; and (c) popularity is no longer the key factor in market value; in fact, the Internet is especially apt (and profitable) for the sale of relatively unknown or minority interest products (Anderson, 2004: 174-177).

Thus, the emergence of this new virtual market undermines one of the classical laws of consumer goods economics - 20% of products account for 80% of sales (the Pareto principle). Having analyzed the online services of companies such as Amazon, Netflix and Wal-Mart, Anderson concluded that the proportion of products that contribute to overall profitability in virtual markets may be as high as 98%. This conclusion does not mean that the most successful titles in conventional distribution channels cease to be so in the virtual world; however, less well-known or minority interest products also become more easily available and are acquired by the fragmented audience(s) of which the virtual market is composed. As a result, a specific catalogue of audiovisual goods may repay on the outlay involved in their production, and marginal profits raised.

Finally, Anderson outlines three rules to govern this new business model, entirely focused on the consumer's leading role and singularity: (1) availability of a wide range of titles ("*make everything available*"); (2) competitive pricing in comparison with other distribution channels ("*cut the price in half; now lower it*"); and (3) personalized consumption ("*help me find...*") (Anderson, 2004: 174-177).

After some false starts, a number of the changes to business strategies adopted by Hollywood studios in recent times have attempted to take these principles into account. For any key player in the entertainment industry aimed at a ubiquitous leisure society, the challenge is to understand this new scenario, where 'the Martini culture' meets 'the long tail' markets.

3. "NET-HOLLYWOOD": SYNERGIES WITHIN THE INDUSTRY

Business executives in Hollywood have now taken careful note of the rules detailed above. Having been initially resistant – if not openly hostile – to the development of television

and video, and thus slow to adapt these new media to their existing business model, the response of such executives to the emergence of new technologies has been markedly different. As early as 2000, one of the *Variety* analysts stated:

Hollywood is suspicious of technology. It always has been. But when it comes to the World Wide Web, it turns out that Hollywood is actually taken over the reigns of Internet entertainment, it just hasn't done it the way everyone thought it would
(Graser, 2000: 22).

Effectively, the major studios have been engaged in a very competitive race to be at the cutting-edge of the changes taking place in recent years, so as not to miss the gravy train of future profit. A number of striking signs of interest in the commercial potential of these emerging markets may be discerned from the mid-1990s onwards, at which point, for example, all the major Hollywood studios set up multimedia divisions, a decision that prompted the coining of the term “interactive Hollywood”⁴. Similarly, the Internet was widely pressed into service as an advertising tool in the promotion of new feature film releases (*ScreenDigest*, 1995c: 84). Likewise, the first trials in *webcasting* on radio and television – more commonly referred to nowadays as *podcasting* – were first carried out about a decade ago. That the main trade papers added a section on the emerging business of new technologies to the more traditional sections on film, television, video and theatre at around the same time comes as no surprise⁵.

With the beginning of the new millennium, the alliance between Hollywood and Silicon Valley became more intense. Technological companies were looking to create Hollywood relationships and a number of industry players moved to ‘dot-com’ companies. Nevertheless, and it was stated at the moment, “Hollywood’s new Web-friendly stance and new deals don’t necessarily mean Hollywood understands the ways of the Web” (Graser, 2000). In fact, it was more a question of using Internet as a testing laboratory for commercial exploitation or being the first to show (Graser, 2000; DiOrio, 2000). This attitude towards new markets is quite typical in the case of oligopolistic industries, as Andrew Currah explains:

⁴ See, for example, the graphic charts on Hollywood studios in the interactive era published in *Screen Digest* in January and March 1995 [*ScreenDigest*. (1995a, January). “Mapping Hollywood Into the Interactive Era: Part I”, 9-16, *ScreenDigest*. (1995b, March). “Mapping Hollywood Into the Interactive Era: Part II”, 63-64.].

⁵ *Variety*, which has published such a section regularly since 1996, is a significant example in this regard.

The commercial developments of new markets and technologies often takes place in a bifurcated fashion, particularly in oligopolies. Specifically, it is possible to make a broad distinction between processes of exploration and exploitation (Tushman & Anderson, 2004). First, the exploration of emerging markets tends to be pioneered by smaller firms, outside the orbit of incumbent firms... Second, a tipping point occurs when emerging markets obtain a critical mass, attracting the interest of incumbents. In a few cases, this process of exploitation might lead to the displacement of incumbents and the ascendance of innovative 'first movers'... In most cases, however, the growth of a new market actually depends upon incumbents given their assets and market power. Generally innovators are more likely to 'sell out' rather than challenge the ruling oligopoly (Currah, 2006: 463).

For the most part, as this same author concludes, this has been the case of “the collision between Hollywood (a mature oligopoly overseen by six studios) and the Internet (a decentralized P2P [peer-to-peer] architecture)” (ibid.). Effectively, a summary of the latest strategic movements that confirm the extent to which the future of Hollywood has come to depend on new technologies may well illustrate this reality. Probably the first move that shook Hollywood’s basements was the merger between AOL and Time-Warner in 2001, although it didn’t last very long operatively (Schatz, 2008). A second shaking move was the Disney’s buy out of Pixar in 2006, not only in the sense of putting together the two most powerful animation brands, but also for the vision it represented. The appointment of Steve Jobs, president of director general of Pixar and founder of Apple, as a member of the Board of Directors at Disney – and the resulting company’s largest shareholder – was not a mere coincidence (Walt-Disney-Company, 2006). In the months following his appointment, Jobs signed agreements with a number of studios to supply a variety of entertainment products for the iPod (mainly television series and programs) in line with the successful model implemented in the iTunes music store. By the end of the summer of 2006, Touchstone Television, 20th Century Fox TV, NBC Universal Television Studio, CBS Paramount Network Television and Warner Brothers TV had been added to the list of suppliers to Apple. The next step was to allow for film downloads, a development that could draw on the participation of two industry flagships: Disney and Pixar. Deals with Universal Studios, Paramount Pictures and Warner Brothers followed as a result (Adalian, 2006; Kay, 2007; Chmielewski, 2006a; Glover, 2006a).

Other business alliances based on shared strategic interest were formed in the wake of the Disney-Pixar merger, involving all the major Hollywood studios either directly or indirectly. A few examples may suffice. In October 2006, Google acquired YouTube. The following March, News Corporation (parent-company of 20th Century Fox) bought MySpace, and the

Blockbuster chain opened discussions on the acquisition of the film download portal MovieLink (Gaither, 2006; McBride & Karnitschnig, 2007; *ScreenDigest*, 2006b; Van Duyn, 2007). At the same time, not only did Microsoft, Apple's longstanding business competitor, seek to rival the iPod with Zune, but also converted the Xbox 360 video-console into a digital TV device, thus allowing for film and TV series downloads on demand from such companies as CBS, Lionsgate, Paramount and Warner Brothers, among others (Keegan, 2007a).

Other major corporations, such as Wal-Mart, whose business accounts for 40% of the DVD distribution market in the United States, also began to take steps to profit from the on-line commercialization of audiovisual products; the online store Amazon launched Unbox, a film download service, on the market, and is currently involved in negotiations with the digital video company TiVo, to provide access to a range of contents (Fritz, 2007a).

The telephone sector and mobile telephone companies were the last to sign up to this rollercoaster of business development. In 2006, Motorola brought out a new telephone capable of playing tracks recorded on iTunes. Apple heralded the arrival of the iPhone, a combination of iPod, mobile telephone and palm-top computer, at almost exactly the same time (Glover, 2006b; Keegan, 2007b), with a launch-date set for early 2007. The race to acquire the rights to audiovisual products among mobile telephone content suppliers such as MobiTV, GoTV and Sprint (mainly in the areas of audiovisual products, entertainment and sport) took off as a result. Sprint has recently closed deals with Disney, Lionsgate, Sony, Universal and ABC to supply an exciting range of titles and products for pay-per-view access on mobile telephones, and has also bought the rights to American Football League matches. At the same time, MobiTV has been involved in negotiations with Fox News, ESPN y MTV (Schmelzer, 2007).

These strategic initiatives provide ample evidence of the determination of most Hollywood studios not to miss the boat on so-called *gear-media*, and to generate extra profit from the new markets that have emerged in the wake of the conventional commercial business model (*long-tail markets*). "We have to adapt", says Barry Meyer, chairman and CEO of Warner Bros. Entertainment, "or we'll become dinosaurs" (Denby, 2006). The business of film downloads is still a burning issue in Hollywood, not only because of the marginal profits it might generate, but also because - in the view of a number of industry experts - Internet downloads of audiovisual products may soon seriously rival pay-per-view TV channels and the consolidation of the new DVD formats (Glover, 2006a; Hansell, 2006; Keegan, 2007a). If anything is clear is that the alliance between Hollywood and Silicon Valley is becoming tighter (Lawson, 2007).

4. HOLLYWOOD AND THE INTERNET: TENTATIVE BUSINESS MODELS

4.1. Movie download: a new window for commercial exploitation

Within this scenario, the distinctive milestone in industry history was to be marked by the decision taken by the major studios to commercialize their films on the Internet. As the previous point makes clear, Hollywood has striven to be at the cutting-edge of the revolution in new technologies from the beginning; or, at least, drawing on the considerable support of the entertainment products it produces, to hold down a prominent position in the process of development. The moves made in Hollywood might be attributed to the promise of a brighter commercial future, or simply to the fact that, in the words of one expert consultant in the field, “[t]hey’re doing downloads because they fear that if they don’t, someone else is going to pirate it out from underneath them” (Keegan, 2007a).

Initially, this multimedia business strategy amounted to little more than the production of videogames and similar entertainment products. However, as mentioned, the full potential of this new window of commercial opportunity was soon realized. Although CinemaNow, the first film download website, was set up in 1999, it was a further three years before Sony, Disney, Universal, MGM and Lionsgate began to take real interest and participate in the project. MovieLink, an alternative established on the initiative of the studios themselves, also appeared in 2002, and drew on the participation of MGM, Paramount, Sony, Universal and Warner Brothers. Only Disney stayed out of this new game until the launch of its own portal (MovieBeam) in 2005.

Having noted the considerable success of iTunes, six of the major Hollywood studios announced plans to sell films on the Internet using the download model at the beginning of April 2006. This decision may be regarded as an historic moment in the development of the two film download portals (MovieLink and CinemaNow) established as official websites by the studios.

These first attempts to adapt to the new business environment were marked by significant complications, first among which was the relatively low number and limited commercial appeal of the films on offer. At the time of its re-launch, 300 features were made available on MovieLink; and only 75 on CinemaNow. Neither portal offered the most recent box-office successes; nor, bearing in mind the acquisitive power of their target market, was the scale of prices competitive: \$20 - \$30 for new releases, and \$10 for all other titles. Moreover, the existing technology was extremely limited in terms of both time (the duration of the download process) and versatility (viewing on different platforms): the films available on CinemaNow could only be downloaded and viewed on a computer, with no option to copy

to a disk; and while MovieLink did include a copy-to-disk, the film could still only be screened on a computer (McBride, 2006a).

None of these initial approaches worked successfully. As elements in a business model, they were marked by at least three significant problems: (a) on one hand, the relatively low number and commercial interest of the films on offer (the studios most profitable releases were made available only on DVD); (b) on the other, inadequate download technology, which made the download process unreasonable in terms of time, quality and versatility; (c) and finally, a counter-intuitive, counter-productive and uncompetitive pricing scale, which took into account neither the experience of other commercial outlets for audiovisual products nor the acquisitive power of the target market (Greson, 2006).

Surprising though it may seem, the failure of the first business model adopted by the Hollywood studios in response to the commercial potential of new technologies may be attributed to an error at the level of first principles: if the Internet is to be a new entertainment platform capable of competing with the conventional media (DVD rental and pay-per-view TV), then either the audiovisual experience it offers should be more attractive and user-friendly, and thus sold at a correspondingly higher price, or its products should be sold at prices considerably lower than those of the existing media (Greson, 2006)⁶.

Fortunately, a few months later, the logic of business prevailed. By the middle of July 2006, given poor returns from their initial approach, the Hollywood studios, led by CinemaNow, implemented a significant change of strategy (the download-to-DVD and burn-to-DVD services) in order to address the two most problematic aspects of the old model (consumer experience and reasonable pricing) (Hansell, 2006; McBride, 2006b, 2006c). The new system was both more versatile and user-friendly, comprising the download, (a single) copy to disk, and the possibility of watching the film on any DVD player (and therefore on any type of television). Moreover, downloads included the same or similar contents and extra features and material as standard DVDs. Nevertheless, given file compression and higher pixilation, image quality remained relatively poor and the download time was rarely less than three hours.

In terms of pricing, CinemaNow reduced the prices on its oldest titles (approximately 100 films) to between \$8.99 and \$14.99, and began to charge \$19.99 for new releases. MovieLink was slower to adopt a similar strategy, but implemented an equivalent scale a few months later. MovieBeam, Disney's on-demand video portal, which had been withdrawn from

⁶ Greson holds that the business model adopted by both CinemaNow and MovieLink was based on two false premises: (a) that a consumer used to renting films on the Internet (for \$2–\$5) would become a buyer willing to pay between \$20 and \$30 per film; and (b) that new consumers, unused to either renting and/or downloading films online, would be willing to pay such high prices for the service.

the market in mid-2005 because of its low profit figures, was re-launched in February 2006, in conjunction with Cisco Systems, the company's new financial partner. This portal stole a march on the conventional commercial model by making films available for download at the same time as their release on DVD; new releases were on offer at \$3.99 and all other films at \$1.99 (rental prices) (ScreenDigest, 2006d).

The entry of new competitors such as Apple, Wal-Mart, Amazon and Netflix to the market has gradually lowered prices, making them both more competitive and accessible to a wider public. While iTunes made new releases available for \$14.99 and all other titles for \$9.99, the corresponding prices at Wal-Mart were \$14.88 and \$7.50, respectively. Amazon's download service, Unbox, charged \$14.99 for new releases. Rental prices are considerable cheaper, ranging from \$1 to \$5 in most of the cases (Fritz, 2007a; Aquino, 2008).

4.2. Hollywood and the IPTV

Thus far, discussion has focused on the commercialization of feature films in the emerging virtual market. However, the business strategies adopted by Hollywood studios and other entertainment companies also encompass new business models for the television sector. In fact, television series and programs comprise a significant proportion of the material made available on download portals. Given the implementation difficulties outlined above, this phenomenon is no mere coincidence. Television programs have considerable advantages over feature-length films in the new market: (a) their shorter duration allows for a faster download time; (b) the content range and number of titles available is higher for television products than for film; (c) the market value of a television program is lower than that of a film, thus facilitating a more economic price scale; and (d) TV image quality is not so negatively affected by the process of digitalization and reproduction on small screens. Therefore, any form of 'mobile TV', either on a PC, cell phone or handheld device is a new market to explore.

Following its business merger with Apple, Disney's approach has been pioneering among Hollywood companies in this regard. In October 2005, the iTunes Store successfully launched its audiovisual download service, offering the astronomical figure of seven million videos of television series and programs produced by the 'Mickey Mouse factory' (including ABC, Disney Channel, Touchstone Television and ESPN). Episodes of series such as *Lost* and *Desperate Housewives* were made available for download from midnight on the day of broadcast at a price of \$1.99. According to the company's own figures, the download rate was in the region of one million per month. These videos could be downloaded to an iPod or a computer, but did not allow for copies to be made (ScreenDigest, 2006e: 136).

In succeeding months, videos produced by NBC Universal, Viacom (MTV, Nickelodeon,

Comedy Central), CBS and Warner Brothers were made available on Apple iTunes. The wide range of contents on offer included such series as *Law & Order*, *South Park*, *Friends* and *The Flintstones*. Sony Pictures Television went so far as to transfer the rights to *The Shield* (co-produced by Fox TV Studios). News Corporation, the only major company not to have a signed a partnership agreement with iTunes, has begun to make its programs available on its own portals (Fox, MySpace and IGN). A number of television programs and series may also be downloaded from other portals, such as AOL, Yahoo and Google (Adalian, 2006; Chmielewski, 2006a; *ScreenDigest*, 2006e: 16)⁷.

In a way that closely parallels the situation in the cinema sector described above, the business model adopted for television program downloads need not be exclusively pay-per-view. Disney, for example, has made episodes of *Lost*, *Desperate Housewives* and *Alias* available for free at ABC.com on a trial basis, bundled with advertising segments that cannot be erased or skipped; the company is also testing a subscription system, as well as standard pay-per-view (*ScreenDigest*, 2006e).

The viewing of TV series and programs on mobile telephones will be part of the future of television. A number of the strategic business synergies developing in this regard in the United States (and in other countries) have already been referred to in this article. The pioneering role of Disney-ABC should also be highlighted in this context; the company has signed an agreement with Sprint to make a large part of its programming available on demand, with three channels offering simultaneous *streaming* broadcasts: the Disney Channel, ABC News, and a third prime-time TV series channel (including programs such as *Desperate Housewives*, *Grey's Anatomy* and *Ugly Betty*, among others) from which episodes may be downloaded on the day after broadcast on television. The basic package offered by Disney includes a further 20 channels for \$20 per month. Verizon, a mobile telephone company, has launched its own television service, comprising eight channels (CBS, NBC, Fox, ESPN, Comedy Central and Nickelodeon, among others) (Learmonth, 2007).

Finally, the integration of television and new technologies in a single device would appear to be just around the corner. A great deal of attention was centered on the recent innovative developments at Apple, where the launch of Apple TV and the iPhone followed the success of the iPod. Others point to the work carried out at Microsoft, including the Xbox 360 and Zune. Although these examples are of different platforms which are still struggling to consolidate their position in the market, the possibility that they may merge to form a single

⁷ The fact that a number of Hollywood studios make their products available on portals managed by other television stations is noteworthy. In the United Kingdom, for example, Channel 4 has acquired the online rights to some series produced by Buena Vista and Fox. Similarly, in France, downloads of programming for children from Nickelodeon (Paramount) are available through Canal Plus (*ScreenDigest*, (2006e, May). "Video Download Market Rebuilds", 136-37.]

integrated device with the combined functions of a personal computer and a television is one that cannot be ignored (Fritz, 2007c; Hesseldahl & Kharif, 2007). At the same time, the consumers' expectancy value and likely adoption about these new forms of TV experience are far from being enthusiastically assumed (Oppelaar, 2000; Ledoux Book & Barnett, 2006).

4.3. Video-on-demand (VoD): the new Apple revolution

From the silver screen to any screen: Now that you can rent your favorite movies from the iTunes Store and play them on your computer, iPod, or iPhone—or rent movies directly from Apple TV—it's easy to build your own go-anywhere multiplex (iTunes Store webpage: movies section).

Stay tuned to iTunes: ...Shop hundreds of TV shows on the iTunes Store and watch them on your Mac or PC. Or sync them to your iPod or iPhone and watch them on the go. All without sitting through a single commercial (iTunes Store webpage: TV shows section).

As these quotes reflect, a further step in the development of Internet as a commercial window for movies and TV shows, following the lines of the 'Martini culture' philosophy, has been Apple's decision to incorporate a new iTunes rental service, following their successful model for music. With this new video-on-demand (VoD) service, customers can view rented movies on any device (iPod, iPhone, computer, TV or the new Apple TV) paying \$2.99 to \$3.99 a pop (library titles and new releases) for 24-hour rentals. Basically, once the renter has downloaded the movie or TV show, he or she has 30 days to watch it. Downloads expire 24 hours after being played for the first time.

According to some industry analysts, this strategic move is based on the ease and flexible Apple's content/hardware ecosystem (Mac, Apple TV, iPod, iPhone), as well as on Steve Job's ability to strike deals with the Hollywood studios where other manufacturers have failed. In fact, at the present moment iTunes has signed deals all the majors with the exception of DreamWorks, having access to a library close to 1,000 titles (Van Buskirk, 2008; Allison & Garrahan, 2008). Effectively, this new offer does not add anything new. Speaking in practical terms, what Apple is offering is a regular domestic VoD deal alike the one most cable customers have. The only meaning difference end-users have is the option of viewing their download rental on portable mobile devices. Nevertheless, Apple is benefiting from its "halo effect" ('if Apple does it, it has to be good') (Sequin, 2008).

As one industry consultant assesses, “this is going to be extremely disruptive, doing for movies what the iTunes music Store did for music” (Van Buskirk, 2008). Nevertheless, Steve Jobs has to face up some significant challenges. One is the potential cannibalization of the DVD window; the other, an alternative sales methods. And a third one, outside the US, the legal and regulatory hurdles (copyright issues), especially in the case of Europe.

Regarding the first one, Jobs is willing to offer new movies for download simultaneously to the DVD rental window, so iPod users can rent them at the same time as they are available at Wal-Mart or Blockbuster for rent. However, Hollywood studios are reluctant to make their new releases available for rent electronically until about 30 days after the DVD is on store shelves. Therefore, a new readjustment of the current window sequence must be under study (Grover, 2008b). In relation with the ‘single rental or sell-through’ vs. ‘subscription’ model, Apple may be well discussing possible subscription service at least for music (giving customers access to the entire iTunes catalog in exchange for a premium on iPod music players. Unlike the existing pay-per-download iTunes model, subscription provides a reliable revenue stream for content companies. In addition, consumers would probably also welcome the chance whether to keep buying one item at a time or pay a monthly fee for unlimited downloads. On top of that, others competitors in the online music market like RealNetworks, Napster, Rhapsody and Microsoft’s Zune have all embraced subscriptions (Hesseldahl, 2008a, 2008b). Finally, the expansion of this iTunes movie rental service to the international market (and particularly Europe) will not be an easy task. If clearing rights for the music business has been quite laborious, the case of feature films and TV shows is even tougher. In this regard, Apple will have to confront not only different copyright regulations, but scheduling conflicts (window sequencing) and technological issues as well (Pfanner, 2008).

As it happened before, Apple decision has provoked the reaction of competitors. US satellite service Direct TV (16 million subscribers) purchased Replay TV, pioneer in personal video recorder (PVR) technology, who is launching a new HD PVR device for transferring television programs to video-enabled iPods. And US cable giant Comcast (25 million subscribers) announced a new initiative called Project Infinity, which includes an expansion of its VoD service from 1,300 to 6,000 titles a month (more than 3,000 available in HD). Finally, HBO has also launching a ‘free’ broadband offering to its cable subscribers and Netflix announced the delivery of movies and other programming directly to TV sets through a set-top box with high-speed Internet connection (Seguin, 2008; Grover, 2008b; Liedtke, 2008).

4.4. Business models: what did go wrong, what should be right

For the Hollywood studios – as well as for the rest of the key players in the entertainment industry – the search for the right business model in Internet has become as harder and crucial as the quest for the Philosopher's Stone. Apparently, the theoretical principles have been always clear, but reality has widely demonstrated that this new market (new consumer) has its own rules. Back in 2001, a *Variety* expert stated,

Advertising, development, syndication and subscription. The seeds have been planted for profitability, but all these business plans are facing a dot-comeuppance. The basic problem?

Nobody can quantify or define the type of content people are willing to pay for

(Donahue, 2001: 18).

Netizens are willing to pay for content if they get something in return that facilitates their Internet experience, and this realization is starting to dawn on traditional entertainment outlets

(Donahue, 2001: 18).

As we have mentioned before, surprising though it may seem, the failure of the first business model adopted by the Hollywood studios in response to the commercial potential of new technologies may be attributed to an error at the level of first principles: if the Internet is to be a new entertainment platform capable of competing with the conventional media (DVD rental and pay-per-view TV), then either the audiovisual experience it offers should be more attractive and user-friendly, and thus sold at a correspondingly higher price, or its products should be sold at prices considerably lower than those of the existing media (Greeson, 2006). With a wisdom based on common sense, *Billboard* analyst Michael Greeson wrote an article prophetically titled "Movie Downloads: Why This Model Won't Work"...

In my view, one of the most insightful analysis on the Hollywood approach to the Internet is the one published by Andrew Currah (2006). Basically what this author assesses is that the Hollywood, rather than exploiting the disruptive power of new technologies, has been trying to preserve the industry *status quo*, ensuring a 'centralized' (server-client) rental model – movie downloads – instead of the 'decentralized' (peer-to-peer) sale-base model. According to Currah, this is seen as a typical protectionist strategy from an oligopolistic structure, aimed at maintaining the current window system (and the respective business model). In summary, the paradox is seems to be that Hollywood has developed an analogical business

model for a digital market.

According to Currah, the main reasons argued by Hollywood executives were, one the one hand, the risk of DVD cannibalization – killing most profitable window –, together with big retailers' pressing (Wal Mart, Blockbuster); on the other hand, the cost of clearing rights for Internet (Currah, 2006: 455-463). Nevertheless, according to industry and market experts, the future of Internet as window depends on Hollywood involvement (ibid.: 463).

In any case, as a number of industry commentators have pointed out, the future of the film download business model will be dependent on a hybrid financing structure, involving a combination of direct (pay-per-view and subscription) and indirect (advertising and sponsorship) funding (Fritz, 2007c). The three current business model to consolidate are: (a) *Transactional*: consumers can buy a permanent download ('download-to-own', DTO), rent a temporary download or buy temporary access to a stream (VoD rental); (b) *Subscription*: consumers can subscribe to an 'all-you-can-eat' rental service offering temporary downloads or streams in return for a single monthly fee (SVoD); and (c) *Ad-supported*: consumers can download or stream titles for free in return for watching video ads within the content (FVoD) (ScreenDigest, 2007: 270-271).

5. HOLLYWOOD AT THE CROSSROAD OF NEW MEDIA: SWOT ANALYSIS

A few tentative conclusions may now be drawn. As the introduction to this paper makes clear, in light of the twin challenges of emerging markets shaped by new technology (*long-tail markets*) and the evolution of a distinct consumer profile (the *net-generation*), the future of Hollywood is uncertain. Moreover, this future is coming ever closer at greater speed. While the most significant elements of the challenges involved in the commercialization of audiovisual products on the internet have been explored in some detail above, a more systematic account of the situation may be required, using the standard SWOT analysis model –that is, by examining the main strengths and weaknesses, opportunities and threats to be addressed by the main players on the new digital and global scenario.

5.1. Strengths

The main forms of commercial opportunity available in the new media market have already been detailed. From the point of view of audiovisual content providers (producers and distributors), the most significant of these are as follows: (a) the consolidation of the download formula as a new model of commercialization; (b) the commercial appeal of

audiovisual and entertainment products (premium contents); (c) as a consequence, the power of the major Hollywood studios; and (d) the new window of commercial opportunity for audiovisual products and the possibility of increased profitability it may afford.

In spite of the difficulties encountered in recent years, few industry executives and experts doubt that “the future is now”; in other words, the commercialization of audiovisual and entertainment products on the internet will be a consolidated mode of business within a relatively short period of time. In the words of Curt Marvis, president and director-general of CinemaNow: “by 2010 downloading of movie and video content will be as commonplace as downloading of music is in today’s World. It will happen that fast” (Lieberman, 2007). Needless to say, this optimistic view of the situation is dependent on widespread access to broadband technology. However, development in this regard would also appear to be more or less a given. According to Bernstein Research, the number of homes with broadband access will have reached 87 million by 2010, compared to 55 million at the moment. Adams Media Research, another prestigious consultancy group, predicts that the number of film downloads will rise from 1.6 million in 2005 to 213.3 million in 2011; the equivalent figures for TV series are 41.5 million (2005) to 496 million in 2011 (Lieberman, 2007). Reading these figures in terms of consumer spending, Adams Media Research estimates the amount spent on film and TV series downloads in 2006 at 111 million dollars, a total that is expected to rise to 472 million in 2007 and to go beyond 1,000 million in 2008. Thereafter, the download business is expected to grow at a rate of 1,000 million per year, until at least 2011 (Reuters, 2007).

Having made a large part of Disney’s highly successful catalogue available via the iTunes Store in September 2006, the conviction of the company’s president and director-general, Bob Iger, that Disney would see 50 million dollars in profit over the first twelve months seems well-founded. In fact, within six months of this prediction, Iger was able to announce that download sales were increasing at a rate of one million dollars per week (Lieberman, 2007; *ScreenDigest*, 2006e).

While the information and predictions referred to above give some indication of the commercial potential of the new market, the drawing power of the ‘star quality’ of audiovisual and entertainment products should also be underscored. As was the case with other market channels in the past, such as pay-per-view TV, successful feature films and television series and programs are the ‘hooks’ by which a new generation of consumers are drawn into the emerging audiovisual market.

Thus, Hollywood studios have played a major role in engaging interest in the emerging market among a new generation of multimedia users. The role and ambition of the leading entertainment and audiovisual production companies has had a significant impact on the consolidation of the internet as a window of commercial opportunity. Given the uncertainty

of the market, new business models have evolved by trial-and-error and with certain readjustments; nevertheless, the commercialization of audiovisual products on the internet is likely to be a mainstay of profitability in the very near future.

The possibility of turning a profit from all kinds of audiovisual products, feature films and TV series, both old titles which have already made a return on the investment involved and new titles which did not return the expected profits through the established distribution channels or were never released at all, is a further advantage of the emerging market. Films such as *Firewall*, *Casanova* and *Derailed* are interesting examples in this regard: while none was a box-office success, all three were later among the most frequently downloaded (albeit within the limited range of films on offer for download) (McBride, 2006c). Similar examples may be pointed to in the television sector. While many production companies have made previously successful series, such as *The Flintstones*, *Miami Vice* and *The A-Team*, available for download, others have used the new market to commercialize aborted projects. *Aquaman*, for example, the pilot program of a series produced by Warner Brothers TV which was never broadcast, was later commercialized on the internet (Adalian, 2006).

5.2. Weaknesses

Along with the strengths and commercial opportunities of the new market, some more significant than others, there are a number of weaknesses that should not be either underestimated or ignored. The strengths outlined above were framed from the perspective of the audiovisual content provider; in contrast, the weaknesses of the existing film download model can be read almost entirely in relation to the viewer/consumer. The main criticisms leveled against the new system are as follows: (a) a lower quality audiovisual experience; (b) download difficulties relating to current limitations on computer and network technology; (c) relatively high prices, in comparison with existing distribution channels; (d) the limits on copying, and format incompatibility; and (e) the limited range of titles on offer (at least at the beginning).

The deficiencies in the new audiovisual experience, as compared with that afforded by other distribution channels such as DVD and pay-per-view TV, may be attributed as much to poorer reproduction quality as to the size of the image. Both factors are affected by the digital image compression and decompression processes, as well as the speed of circulation on the internet. Audiovisual products – in particular, those with a duration of more than half an hour – move like ‘heavy vehicles’ on the virtual highway; high speeds are simply not possible. The requirements of portability mean that image size is extremely limited, above all for major film productions designed to be shown on the big screen. David Denby, veteran film critic at *The New Yorker*, described his experience of watching *Pirates of the*

Caribbean on an iPod in the following terms: "Pirates has lots of wide vistas and noisy tumult (...). What I saw, mainly, was a looming ship of the size of a twig, patches of sparkling blue, and a face of a skull flashing by. The interiors were as dark as caves. My ears, fed by headphones, were filled with such details as the chafing of hawsers and feet stomping on straw, but there below me Johnny Deep and Orlando Bloom were dueling like two angry mosquitoes in a jar" (Denby, 2006). In most cases, moreover, films available for download do not include the extra features and material normally bundled with the corresponding DVD release ("The making of...", trailers, etc.).

A further negative factor is the lengthy time-period and poor reliability of the download process. The online download process is designed for use on a broadband system with the necessary capacity in conjunction with high-power, reliable computers; or on similarly reliable wireless networks with similar capacity. Unfortunately, there is still a considerable distance between theory and practice. "Certainly the idea of downloading sounds irresistible", says one writer from *The New York Times*. "The reality, as I recently discovered is messier", she adds. "When all the planets are aligned and your computer has enough memory and hasn't been deluged with spam for lots of little multicolored pills, it will function just dandy. But try to download without enough disk space and through a wireless connection, as I initially did, and you may soon wonder why you're spending so much time and energy to watch films you've never heard of on your computer rather than watching [another more notorious in] DVD on your dreamy big television" (Dargis, 2007). Given that the necessary technology is developing at an exponential rate, the significance of these problems is likely to diminish gradually over time; nevertheless, a number of industry analysts argue that broadband access with sufficient capacity to allow high-definition film downloads in less than ten hours will not be generally available for several more years (Keegan, 2007a).

Given this context, that the prices charged for film downloads are too high has become the consensus view, especially when product quality is compared with that available through established distribution channels such as DVD or pay-per-view TV. In a provocative article published in *Billboard* a few days after the decision to re-launch internet portals such as MovieLink and CinemaNow was taken, Michael Greeson wrote: "Paying 99 cents for a song or \$1.99 for a TV program is not analogous to spending \$20-\$30 for a digital copy of a movie. The studios are only too eager to point to the success of iTunes as proof of concept and to validate market timing. Yet the most relevant insight the iTunes experience offers is the one MovieLink and CinemaNow are ignoring even before they sell their first download: Determine the lowest price point needed to sustain the business model, and then go one step lower. This holds for almost any Internet vendor, but certainly applies to novel Internet-based media services" (Greeson, 2006).

The scale of prices has been adjusted over time; the average is now between \$10 and \$15 dollars per film, although some new releases are sold at \$20. Nevertheless, it remains difficult to believe that viewers willing to pay such amounts for a film that can be bought on DVD for an equivalent price, watched on a dedicated pay-per-view TV channel, or obtained as an illegal copy without great difficulty may easily be found, least of all among potential users aged between 14 and 25. In all of the abovementioned situations, the audiovisual experience itself is similar: the film is viewed on a television or computer screen. However, the DVD, TV and copy options offer higher image quality and less complications (the problems involved in the download process). One young respondent to a recent survey on the issue put it as follows: "I would be willing to pay for the right to download movies onto my PC occasionally if they are less expensive than the DVDs sold in retail stores" (Solutions-Research-Group, 2007). This comment led Greeson to conclude: "If you want me to use the Internet as an entertainment conduit and the PC monitor as a viewing screen, you have to make the experience more compelling than my traditional media experiences æor make it virtually risk-free by setting the cost of this experience well below my traditional media experiences", either because of quality or because of price (Greeson, 2006).

The restrictions on copying and the incompatibility of formats between portals likewise discourage – and may even drive away – prospective users, who comprise an audience that demands the greatest possible versatility when it comes to buying or using consumer goods on the internet. Although the main internet portals were quick to offer a copy-to-disk option (the download-to-DVD and burn-to-DVD services), product versatility is still extremely limited. In some cases, the digital copy may only be played on a personal computer, not on a standard DVD player; and in others, only one copy may be made – thus, the user runs the risk of losing the audiovisual product if (s)he changes computer. In addition to these difficulties with regard to copying, the various internet portals have different IT compatibility requirements: MovieLink works on PCs running Windows 2000 or later versions; Amazon, CinemaNow and Wal-Mart do not work on any version prior to Windows XP; iTunes works mainly on Apple; and some portals provide their own download and reproduction software programs. Finally, the incompatibility of the protection systems (DRMs)⁸ used by the main suppliers/distributors should also be noted: films downloaded from Wal-Mart cannot be screened on the new Apple TV, and those obtained from iTunes are incompatible with the Sony PSP. A number of industry experts argue that not only is the growth of the download market being slowed down by these compatibility issues, but internet piracy – that is, what

⁸ DRM (*Digital Rights Management*) is a protection system designed to prevent piracy and/or unlimited copying. Problems arise because each supplier/distributor has produced its own DRM program or software, the purpose being to reduce the risk of any type of piracy to a minimum.

the download portals were designed to prevent – is being encouraged by default; illegal copies do not normally present users with compatibility problems (Foroughi, Albin, & Gillard, 2002; Fritz, 2007b; Gillespie, 2006; Lieberman, 2007).

The limited range of titles made available to consumers initially was a further weakness in the market – in particular, the exclusion of commercially successful features. As has already been noted above, a number of film download portals backed by Hollywood studios were launched with catalogues that did not include either the most popular, or even the most recent, products. This deficiency was soon remedied, however; the portals now offer extensive catalogues with a wide range of titles. A consultant analyst at Forrester Research has noted in this regard: “It might not be all on the same service, but by the end of this year, you’re going to have the ability to download just about every major movie that you could want” (Keegan, 2007a). At least part of this problem may be attributed to complications in the management of legal rights and copyright. “One of the reasons there aren’t hundreds of thousands of movies in Internet is because it’s difficult to get music license rights”, says MovieLink CEO Jim Ramo. “Generally, with movies made prior to 1995, the distributors did not get the music license rights for the Internet. Nobody thought of the Internet as a distribution channel for movies. It takes a lot of arms and legs to make those calls and do the follow-ups” (Lieberman, 2007).

5.3. Opportunities

In spite of the weaknesses outlined above, numerous commercial opportunities remain open to those involved in the audiovisual product market. The following are among the most significant: (a) the emergence of a new market responding to the needs of a new type of consumer; (b) the development of commercial synergies in the audiovisual industry; (c) significant commercial opportunities for small and/or independent companies; (d) exciting new possibilities for professional promotion, as a result; and (e), interaction with other markets (simultaneous forms of commercialization).

The effects of the revolution brought about by the internet and new technologies at every level of the industry (production, distribution and consumer behavior) can hardly be overstated. The significance of a new market shaped by the interests of a new consumer/audience profile goes beyond what has been outlined thus far in the article. The following observation comes from a recent study on internet film usage carried out in the United States: “The online video revolution and the quick migration of TV content to the Internet in the past year is beginning to shape consumer expectations for movies (...). The increasing demand for instant access to movies is an opportunity for the movie business. And while consumers expect a discount from regular DVD prices, the research suggest that

they are willing to pay for movies online as long as attractive current titles are made available with consumer-friendly interoperability and content portability features” (Solutions-Research-Group, 2007).

Thus, the greatest challenge facing the major Hollywood entertainment companies in the drive to exploit the potential of this emerging market is to draw up a business model that responds to the habits of a new type of consumer. These new consumer habits are those of a multimedia and multi-tasking generation who set great store by features such as portability and versatility: *“what I want, when I want, where I want, how I want...”*. Given this basis, Kevin Swint, digital media manager at Wal-Mart, was led to conclude that: “over time, it will evolve into multiformat video experience in stores and online where the consumer can discover content and get it in whatever download, DVD or a Blu-ray or HD-DVD disc” (Fritz, 2007a).

Moreover, to speak of a new market and a new type of consumer/audience is also to speak of a new type of product. Thus far, discussion has focused mainly on the internet as a new market channel for the commercialization of products originally produced for other media (cinema, DVD and television). However, consumer/audience demand in the future will not be satisfied by the supply of conventional films and television series; new, more creative, innovative and participative forms of audiovisual production will be required, which respond to the demands and possibilities of the new media. In other words: new products for a new market; or, new products for a new type of consumption or use. The audiovisual contents produced for mobile telephones provide an interesting example of this development: they are short in duration and designed to be viewed on a (very) small screen (Dawson, 2007; Frankel, 2007; Schmelzer, 2007).

The structure and profile of the new market has prompted the development of many forms of business synergy in the entertainment industry: production companies (such as Hollywood studios) have begun to work in conjunction with leading firms in the new communications technologies sector (the internet, mobile telephones, etc.). The fast-paced process of business mergers and strategic partnerships in the entertainment industry in the United States in recent times cannot be attributed to coincidence; Disney-Pixar-Apple, Fox-MySpace, Google-YouTube, Blockbuster-MovieLink, Amazon-TiVo are only some examples of this phenomenon. Moreover, this trend appears set to continue, increase and consolidate its effect on the market in the near future.

In line with this development, the new commercial opportunities opening up for smaller and/or independent companies might also be highlighted. The barriers to entry to the market for new competitors are no longer insurmountable. The highly competitive market in entertainment products is also susceptible to the general democratizing effect of the internet. The leading internet portals, sponsored by the major Hollywood studios, (CinemaNow, MovieLink and MovieBeam) have been joined by portals focusing on

independent cinema and/or overseas productions. The *indie* film *Black* (2005) is an interesting example in this regard: rated among the top ten films of the year by Time magazine (Europe), it was not released in the cinema or on DVD in the United States; it was, however, available for download from the Jaman portal at a cost of \$1.99. Independent filmmakers, therefore, may use the internet to market their productions throughout the world, with a direct access-route to the most appropriate market niche and without having to invest heavily in distribution costs (Robischon, 2007; Thompson, 2007).

As a result, the internet has also become a new platform for professional promotion, not only as a means by which an audiovisual product may gain entry to a market that might otherwise have remained closed to it, but also as an advertising tool by which themed film festivals may be promoted or filmmakers may generate publicity about their work – a virtual ‘interview’. MyMovie MashUp, an online short film competition, organized by MySpace in conjunction with Film4 and Vertigo Films is an interesting example of the former; the winning entry will be awarded a one million pound (\$1.97 million) contribution towards the production of a feature-length film (Mitchell, 2007)⁹. With regard to personal promotion on the internet, a recent report in the *Los Angeles Times* gave an account of a new approach to the job-search in Hollywood: the candidate or applicant uploads a video to YouTube in order to persuade prospective employers of his/her talent and abilities (Kaufman, 2007).

In addition to changes in consumer profile and behavior, increasingly hybrid business strategies of this kind have led to more intense interaction between different markets and, in particular, to a paradigm shift in the commercialization process: the simultaneous release of an audiovisual product through several distribution channels. Although this development is still only in its early stages, a number of industry experts have expressed their enthusiasm for the idea that a film might be released through several channels (internet, pay-per-view TV, DVD, and even the cinema) at the same time (Calver, 2007; Epstein, 2005).

5.4. Threats

Finally, the shadows darkening the edges of this vision of a bright future should also be noted. The following may be regarded as the most significant: (a) slow market adaptation, especially with regard to new consumer behavior; (b) as a consequence, the rise of piracy and the rejection of any type of pay-per-view business model by young users; (c) increased competition; and (d) in business terms, the need to adapt and evolve, or die.

The speed at which the potential of new technologies has been tapped into by the

⁹ Twelve finalists were selected from the 1,000 young film directors who entered the competition; several renowned British filmmakers sat on the jury for the competition.

entertainment industry has been referred to frequently in this article. Nevertheless, resistance among users in the emerging market to conform to new consumer behavior complicates the implementation and consolidation of the new business model and qualifies predictions for further growth. Despite the significant advances made in technological terms, there is still considerable room for improvement in the area of network reliability, especially in relation to 'heavy vehicle' traffic like that of audiovisual products. Broadband access has not been extended at the expected rate, and the management of certain levels of information content lies beyond existing IT standards; general broadband capacity to download high-definition films in a reasonable period of time will not become standard for several more years (Keegan, 2007a). "When we started CinemaNow in 1999", confesses in this respect its chairman and CEO, "I would never have predicted that by 2007, the age of digital distribution would still not have really arrived as a mainstream business [for this industry]" (Lieberman, 2007).

However, consumer response to specific industry offers should also be borne in mind. A study published recently in the United States reported that only 15% of the internet users consulted had downloaded a film in the previous month, and only 8% had paid for the download. Moreover, only 30% had accessed the iTunes portal during the same period; the corresponding figures for Amazon and Wal-Mart were 10% and 8%, respectively (Solutions-Research-Group, 2007)¹⁰.

This information is also an indicator of one of the greatest threats to the new market: the rise of internet piracy among young users and their general indifference to the legal and business issues involved. As has already been noted, a proportion of potential new consumers would be willing to pay for downloaded audiovisual products if and only if such products were to be offered at more economic prices and included other competitive advantages (such as greater portability and interoperability). Illegal copying has not been stemmed by the drive to install digital protection systems; producers and distributors have been able to do little more than stand idly by and watch as their products circulate freely on the internet. A few months ago, the major Hollywood studios decided to sign a partnership agreement with one of their most powerful enemies, the internet portal, BitTorrent, which now offers a catalogue of 3,000 films and thousands of TV series and programs, in addition to music and videogames, at prices similar to those set by its competitors (Knowles, 2007; Stone, 2007).

While the commercial opportunities available in the new market are open to small and/or independent production companies as well as to big business, competition is also likely to

¹⁰ This study is based on two surveys, one carried out in October 2006 (1,600 respondents), the other in May 2007 (1,230 respondents).

become more intense on a number of fronts. The new market in internet downloads poses a major threat to the future of the DVD business –especially to the development of new DVD formats such as Blu-Ray and HD DVD– and the established pay-per-view television and cinema release systems (Bowles, 2007; Dean, 2007; Fritz, 2007a, 2007c; Keegan, 2007a). Pioneering internet portals such as CinemaNow, MovieLink and MovieBeam are locked in competition with smaller companies like Jaman, GreenCine and Sprint, as well as with the major distributors (Wal-Mart, Blockbuster, Amazon and Netflix), which also act in direct competition with one another (Fritz, 2007a). The decision taken by mobile telephone companies to launch their own audiovisual contents services through portals such as MobiTV, Gota and Sprint, in response to complicated negotiations concerning legal rights and copyright and in direct competition with the major Hollywood studios, is also a significant factor (Frankel, 2007; Schmelzer, 2007).

Thus, many of the established sectors of the industry must either transform themselves in light of the new situation or disappear: adapt or die. A number of major companies in the business, such as Wal-Mart and Blockbuster, for example, have ceased to be traditional sales outlets (*retailers*) in order to become virtual sales-points (*e-tailers*) (Fritz, 2007a, 2007c; Keegan, 2007a). The cinema sector could also respond to the new market challenges by enriching the viewing experience, using the most refined (digital) technology available, and by offering music and sporting events, along with other leisure and entertainment activities, in addition to standard film releases (Bowles, 2007; Cohen, 2007).

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